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SUBJECT: (S) RESTRUCTURING CHINESE FOREIGN AID--NEXT STEPS

REF: 05 BEIJING 16254

Classified By: (S) CLASSIFIED BY MINISTER COUNSELOR FOR ECONOMIC AFFAIR
S ROBERT S. LUKE; REASON 1.5 (B) AND (D).

¶1. (S) Summary: A senior advisor on Chinese development assistance told Econoff on December 20 that he has submitted his recommendations to the Ministry of Commerce (MOFCOM) on how China should restructure its foreign aid program. The advisor stated that China's aid program should continue to focus on the same geographic regions (Asia and Africa) and have the same trade-promotion orientation, but that it also should be a more transparent policy geared towards cooperation with international agencies. He acknowledged a significant amount of infighting over the future of China's foreign aid program, and said one faction within the bureaucracy is promoting a strategy that will continue to emphasize natural resource acquisition, diplomatic support vis-a-vis Taiwan, and promoting Chinese brand recognition. The advisor said that China's transition to donor country would be a gradual shift, not only because of these philosophical differences within the Central Government but also because China's economic assistance infrastructure overseas remains weak. Illustrating China's transition from recipient to donor, the World Food Program announced on December 15 that it would no longer provide food aid to China. End Summary.

¶2. (S) Dr. Zha Daojiong, Chair of the Department of International Political Economy at the School of International Studies at the People's University of China (Renmin Daxue), told Econoff on December 20, 2005 that he has submitted his final recommendations to MOFCOM on how China should restructure its foreign aid program. Zha stated that his report is the first study on external assistance commissioned by the Central Government to an outside consultant. Throughout the process, Zha claims to have received high-level access to information and contacts at MOFCOM and the MFA. Zha previously met with visiting USAID officials in Beijing on September 19 to explain China's transition from recipient nation to donor country (see refTel). According to Zha, China currently is restructuring its aid apparatus with a view towards playing a more significant role in the international development community.

Future of Foreign Aid: 5 Recommendations and 4 Reforms

¶3. (S) Zha told Econoff that his report to MOFCOM made five major recommendations and suggested four reforms on the future of China's foreign aid program. The recommendations are as follows:

--China's economic assistance should maintain the status quo in terms of geographical distribution with most of China's aid going to its Asian neighbors with Africa as the second priority destination;

--Aid should continue to be tied to trade and investment projects, specifically in Asia;

--Economic assistance in Asia also should take cross-border economic problems into account, including drug trafficking, trafficking in persons, etc., and aid should be leveraged to help resolve these pressing issues;

--China should work through international agencies, including the UN and World Bank to disperse aid and design programs; and

--China should cooperate closely with the G-7 and other developed countries to design aid programs that meet the standards of the Millennium Development Goals.

¶4. (S) The advisor stated that his suggested reforms are intended to create a more transparent foreign aid apparatus. The reforms are as follows:

--China should follow OECD guidelines for aid;

--China should publish an annual white paper on its foreign aid program that would include statistics on the amounts of aid as well as the location of projects;

--The Central Government should launch programs to educate the public on why foreign aid is important; and

--China should reform its training and exchange programs to facilitate more representatives from the developing world having access to training in China or in their own countries.

Bureaucratic Dogfight: Confusion over China's Role

¶5. (S) Zha told Econoff that while his study was commissioned by MOFCOM, he attempted to work with both MOFCOM and MFA, and the friction between the two agencies is obvious. MFA is a relatively open organization, Zha said, but MOFCOM controls the money for aid programs, and the agency does not see the need to be more transparent. (Comment: Clearly, however, the fact that MOFCOM commissioned this study indicates there is support for reform within that ministry as well. End Comment.) Zha complained that a proposed conference on international cooperation in development that he originally had scheduled for September 2005 had been cancelled by MOFCOM and was not likely to be rescheduled. MOFCOM's reluctance to engage with foreigners on China's aid program, Zha said, is largely because China's aid program is so small. He estimated that Chinese donations amount to only 15 percent of what China receives. (Note: Zha also spoke in reftel about China's actual aid outflows not matching publicly stated amounts due to perceived competition with Japan in developing countries. End Note.)

¶6. (S) Zha hopes, however, that a Foreign Aid Policy Workshop, recently held in Beijing and attended by members of the National Committee on United States-China Relations, had helped sensitize some recalcitrant government officials on the importance of improving coordination with other donors. China needs to cooperate with the G-7 on foreign aid, Zha said, in order to both learn lessons and build confidence with developed countries that China is a responsible stakeholder.

¶7. (S) In the meantime, however, Zha told Econoff he is less concerned about MOFCOM-MFA friction as he is about a faction within the government that wants to continue to promote an aid policy that emphasizes natural resource acquisition, diplomatic support vis-a-vis Taiwan, and promoting Chinese brand recognition. Zha said he was disappointed with the outcome of a conference of China's Ambassadors on the margins of the G-20 Summit in Beijing in October 2005. Although the goal of the conference purportedly was to address new strategies for China's foreign aid program, the primary focus of the meeting, including the keynote speech by Premier Wen Jiabao, instead centered on China's historical aid objectives such as resources and Taiwan.

¶8. (S) Zha stated that he hopes, however, that the Central

Government's views on providing aid to developing countries so that they will switch their diplomatic recognition from Taiwan to the PRC are changing. He noted a recent example when Honduras reportedly asked Beijing for a USD 40 billion aid package spread over five years (USD 8 billion per year) to switch its recognition to the PRC. According to Zha, the MFA called an emergency meeting on the matter, and those opposing providing the aid (including Zha) ultimately won the debate. He referred to aid-for-recognition as "blackmail" that China no longer should be willing to pay.

New Foreign Aid Program A Gradual Shift

¶9. (S) Due to philosophical differences and bureaucratic infighting within the government, Zha theorized that China's foreign aid policy would undergo a gradual transformation rather than a dramatic change. He does not believe there will be major new initiatives in 2006, but he does believe there will be considerable pressure on China to transition from recipient to donor before the 2008 Olympics in order to prove Beijing is not a "free-loader."

¶10. (S) Any change will be a gradual one, Zha added, because China's overseas aid infrastructure is not sufficient to carry out new development projects in developing countries. Zha said he believes China will continue to focus on government-to-government aid, but he also hopes Beijing will be more willing to cooperate with international agencies. He said China has no plans to work through either Chinese or international overseas NGOs, but MOFCOM will continue to engage provincial governments to identify Chinese state-owned and private sector contractors for projects overseas. Working with these contractors, he said, gives the companies international experience and also lessens the Central Government's burden to implement projects.

World Food Program Departing China After 26 Years

¶11. (C) Even as the study on China's transition from recipient to donor was submitted to MOFCOM, another aid agency announced it is downsizing its program in Beijing. As expected, the World Food Program (WFP) formally announced during a December 15, 2005 visit by WFP Executive Director James Morris that it would end its food aid program in China after 26 years. Since 1979, WFP has provided China food aid valued at more than USD 1 billion, feeding more than 30 million people in central and western China.

¶12. (C) Kate Milliken, WFP Program Officer told Econoff that WFP's office in Beijing would remain open with a small staff to accept donations, conduct emergency operations if necessary, increase WFP's visibility, and negotiate stand-by agreements to use China's emergency response capacity to deal with food crises. Another important objective for WFP is to encourage China to further increase its donor support to WFP, which recently increased from USD 1.25 million to USD 1.75 million. Morris approached the Chinese about increasing its donations to WFP during his visit to Beijing.

Transition Gradual But Appears to be Picking up Steam

¶13. (S) Comment: Although China's transition from aid recipient to donor may be a gradual shift, it appears to be picking up steam. It is significant that MOFCOM commissioned a non-government entity to submit recommendations on how to reform China's foreign aid program. Taken together with reports on multilateral donors either closing down aid programs in China, as in the case of WFP food aid, or limiting their aid to technical assistance (World Bank, Asian Development Bank), as well as bilateral donors pulling out, the transition away from aid recipient is obvious.

¶14. (S) Equally obvious, however, is that China's future strategy for outgoing economic assistance remains unclear. Zha's recommendations focus on China becoming a responsible

stakeholder in the international donor community and working to promote the Millennium Development Goals, as well as increasing the transparency of its aid program. There are others within the government, however, who will continue to attempt to use China's aid apparatus to secure resources, compete with Taiwan, and promote Chinese brands. High-profile aid projects in places like Sudan and Cuba continue to call into question whether recommendations to cooperate with other donors and to become more transparent will find a receptive audience among decision-makers at MOFCOM and other government agencies. End Comment.

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